

2015 Third Quarter Earnings Conference Call November 5, 2015



SOUTHWEST GAS



Safe Harbor Statement



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This presentation includes “forward-looking statements” as defined by the Securities and Exchange Commission (SEC). We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this presentation that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements. These include, without limitation, our 2015 outlook update and preliminary 2016 outlook for our construction services and natural gas operations segments.

Forward-looking statements are based on assumptions which we believe are reasonable, based on current expectations and projections about future events and industry conditions and trends affecting our business. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks and uncertainties that, among other things, could cause actual results to differ materially from those contained in the forward-looking statements, including without limitation, the risk factors described in Part I, Item 1A “Risk Factors,” and Part II, Item 7 and Item 7A “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Quantitative and Qualitative Disclosure about Market Risk” of our 2014 Annual Report on Form 10-K filed with the SEC, and other reports that we file with the SEC from time to time, and the following:

- The timing and amount of rate relief;
- Changes in rate design;
- Customer growth rates;
- Conditions in housing markets;
- The effects of regulation/deregulation;
- The impacts of construction activity at our construction services segment;
- The impacts of stock market volatility; and
- Other factors discussed from time to time in our filings with the SEC.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for us to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. The statements in this presentation are made as of the date hereof, even if subsequently made available on our Web site or otherwise. We do not assume any obligation to update the forward-looking statements provided to reflect events that occur or circumstances that exist after the date on which they were made.



2015 Third Quarter Highlights



Natural Gas Operations

- Added 26,000 net new customers
- Construction of the \$35 million Paiute Pipeline Elko Expansion Project is progressing and is targeted to be in service by the end of 2015
- Nevada GIR advance application for \$43.5 million of infrastructure replacement projects in 2016 approved by the Public Utilities Commission of Nevada (October)

Construction Services

- Record quarterly revenues and earnings contribution
- Continuing to pursue negotiations associated with Canadian industrial project
- Poised for continued growth



2015 Third Quarter Highlights



Holding Company Reorganization

- In October 2015, filed regulatory applications with the Arizona Corporation Commission, the California Public Utilities Commission, and the Public Utilities Commission of Nevada for approval to reorganize as a holding company
- The reorganization is designed to provide further separation between the regulated and unregulated businesses and provide additional financing flexibility
- The reorganization is subject to approval of the state regulatory commissions, consents from various third parties, and final Board approval
- The reorganization could become effective in the second half of 2016



Call Outline



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- I. Consolidated results – September 30, 2015
- II. Natural gas segment
- III. Centuri Construction Group
- IV. Regulation
- V. Customer growth
- VI. Capital expenditures
- VII. Dividend growth
- VIII. 2015 outlook update & preliminary 2016 outlook



Summary Operating Results

(In thousands, except per share amounts)



	THREE MONTHS ENDED SEPTEMBER 30,		TWELVE MONTHS ENDED SEPTEMBER 30,	
	2015	2014	2015	2014
Results of Consolidated Operations				
Gas operations income (loss)	\$ (18,939)	\$ (11,452)	\$ 113,252	\$ 117,797
Construction services income	14,205	13,422	17,692	21,886
Net income (loss)	<u>\$ (4,734)</u>	<u>\$ 1,970</u>	<u>\$ 130,944</u>	<u>\$ 139,683</u>
Basic earnings (loss) per share	<u>\$ (0.10)</u>	<u>\$ 0.04</u>	<u>\$ 2.80</u>	<u>\$ 3.01</u>
Diluted earnings (loss) per share	<u>\$ (0.10)</u>	<u>\$ 0.04</u>	<u>\$ 2.77</u>	<u>\$ 2.98</u>
Ave. shares outstanding	47,102	46,513	46,777	46,451
Ave. shares outstanding (assuming dilution)	-	46,966	47,194	46,904



Summary Operating Results

Natural Gas Operations

(In thousands)



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Results of Natural Gas Operations

	THREE MONTHS ENDED SEPTEMBER 30,	
	2015	2014
Gas operating revenues	\$ 219,420	\$ 226,027
Net cost of gas sold	64,268	72,987
Operating margin	155,152	153,040
Operations and maintenance expense	100,102	93,389
Depreciation and amortization	52,672	50,533
Taxes other than income taxes	11,652	11,835
Operating loss	(9,274)	(2,717)
Other income (deductions)	(3,525)	442
Net interest deductions	16,259	17,159
Income (loss) before income taxes	(29,058)	(19,434)
Income tax expense (benefit)	(10,119)	(7,982)
Net loss - gas operations	\$ (18,939)	\$ (11,452)



Three Months Ended September 30, 2015



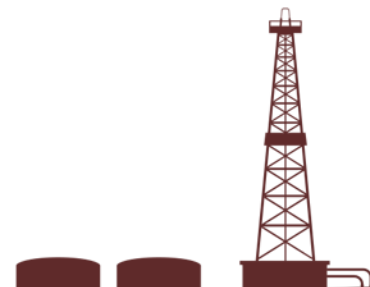
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Increase in Operating Margin
Natural Gas Operations
(In millions)

Customer growth	\$	1
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Rate relief (CA, Paiute)		1
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Increase	\$	2
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Three Months Ended September 30, 2015



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Operating Expenses and Net Financing Costs Natural Gas Operations

Operating expenses increased \$8.7 million

- O&M expense increased \$6.7 million or 7%
 - \$3.2 million increase in employee pension and medical costs
 - Higher employee counts and an increase in general costs also contributed
- Depreciation and amortization expense increased \$2.1 million or 4%
 - Average gas plant in service increased \$264 million

Net financing costs decreased by \$900,000 due primarily to debt redemptions

- \$65 million 5.25% Series A IDRBS in November 2014
- \$31.2 million 5.00% Series B IDRBS in May 2015



Other Income and Deductions

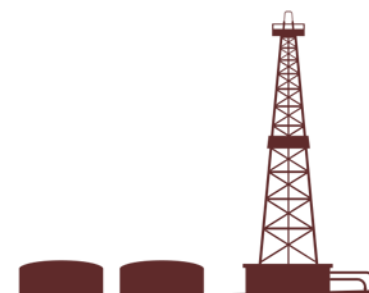
Natural Gas Operations

(In thousands)



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	THREE MONTHS ENDED SEPTEMBER 30,	
	2015	2014
Change in COLI policies	\$ (3,900)	\$ (300)
Foreign transaction gain (loss)	(302)	-
Miscellaneous income and (expense)	677	742
Total other income (deductions)	<u>\$ (3,525)</u>	<u>\$ 442</u>



Summary Operating Results

Natural Gas Operations

(In thousands)



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TWELVE MONTHS ENDED SEPTEMBER 30

Results of Natural Gas Operations

	2015	2014
Gas operating revenues	\$ 1,457,266	\$ 1,356,653
Net cost of gas sold	570,052	480,608
Operating margin	887,214	876,045
Operations and maintenance expense	385,271	390,328
Depreciation and amortization	210,863	201,896
Taxes other than income taxes	50,059	45,786
Operating income	241,021	238,035
Other income (deductions)	1,652	8,989
Net interest deductions	64,958	68,656
Income before income taxes	177,715	178,368
Income tax expense	64,463	60,571
Net income - gas operations	\$ 113,252	\$ 117,797



Twelve Months Ended September 30, 2015



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Increase in Operating Margin

Natural Gas Operations

(In thousands)

Customer growth	\$	8
Rate relief (CA, Paiute)		5
Other		(2)
		<hr/>
Increase	\$	11
		<hr/> <hr/>



Twelve Months Ended September 30, 2015

Natural Gas Operations



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- Operations and maintenance expense decreased \$5.1 million between periods
 - Legal expenses declined between periods as the prior period included a \$5 million legal accrual recognized during the first quarter of 2014
 - Rent expense associated with the corporate headquarters complex declined \$1.6 million between periods
 - Partially offsetting these decreases were general cost increases and higher employee-related expenses
- Depreciation expense increased \$9 million or 4% between periods
 - Average gas plant in service increased \$288 million
- Net financing costs decreased by \$3.7 million due primarily to debt redemptions and lower interest expense on variable rate IDRBs



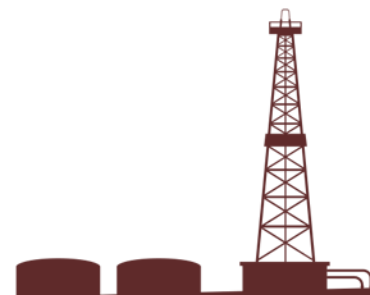
Other Income and Deductions

Natural Gas Operations

(In thousands)



	TWELVE MONTHS ENDED SEPTEMBER 30,	
	2015	2014
Change in COLI policies	\$ (200)	\$ 7,200
Foreign transaction gain (loss)	(1,052)	-
Miscellaneous income and (expense)	2,904	1,789
Total other income (deductions)	<u>\$ 1,652</u>	<u>\$ 8,989</u>



Summary Operating Results

Construction Services

(In thousands)



	<u>THREE MONTHS ENDED SEPTEMBER 30,</u>		<u>TWELVE MONTHS ENDED SEPTEMBER 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Results of Construction Services				
Construction revenues	\$ 285,976	\$ 206,448	\$ 948,637	\$ 675,728
Operating expenses:				
Construction expenses	246,755	173,937	850,591	595,093
Depreciation and amortization	<u>13,804</u>	<u>11,504</u>	<u>55,948</u>	<u>45,788</u>
Operating income	25,417	21,007	42,098	34,847
Other income (deductions)	(135)	(2)	(686)	37
Net interest deductions	2,142	262	8,961	1,024
Income tax expense	8,411	7,364	14,074	12,217
Noncontrolling interests	<u>524</u>	<u>(43)</u>	<u>685</u>	<u>(243)</u>
Contribution to net income	<u>\$ 14,205</u>	<u>\$ 13,422</u>	<u>\$ 17,692</u>	<u>\$ 21,886</u>



Three Months Ended September 30, 2015



CENTURI
CONSTRUCTION GROUP

Construction Services

- Revenues increased \$79.5 million
 - Revenues of recently acquired companies (\$41.4 million) and additional pipe replacement work at NPL
- Construction expenses increased \$72.8 million
 - Costs associated with the acquired companies (\$39.2 million) and additional pipe replacement work, as noted above
- Depreciation & amortization increased \$2.3 million
 - Amortization of finite-lived intangible assets recognized from the acquisition of \$740,000
 - Incremental depreciation expense from acquired companies of \$1.3 million
- Net interest deductions increased \$1.9 million



Twelve Months Ended September 30, 2015



CENTURI
CONSTRUCTION GROUP

Construction Services

- Revenues increased \$272.9 million
 - Additional pipe replacement work
 - Inclusion of the acquired companies beginning fourth quarter 2014 (\$175.9 million)
- Construction expenses increased \$255.5 million
 - Additional NPL pipe replacement work
 - Acquired companies costs of \$175.8 million
 - Impacted by a \$7.7 million loss reserve recorded on an industrial construction project in Canada
 - Mediation scheduled to occur in mid-November in an attempt to resolve open change orders
 - General & Administrative expense increased \$15.6 million including \$9.2 million from recently acquired companies and \$5 million in acquisition costs
- Depreciation expense increased \$10.2 million
 - Amortization of finite-lived intangible assets recognized from acquisition of \$5 million
 - Incremental depreciation expense from acquired companies of \$4.8 million
- Net interest deductions increased \$7.9 million



Regulation

Natural Gas Operations



- California attrition
- Infrastructure replacement mechanisms
 - Nevada Gas Infrastructure Recovery (GIR) Mechanism
 - Arizona Customer Owned Yard Line (COYL) Mechanism
 - California Infrastructure Reliability and Replacement Adjustment Mechanism (COYL program)
- LNG facility in Arizona
- Elko expansion project - Paiute Pipeline Company (FERC)
- Nevada SB 151 – Expansion/Economic Development Legislation
- Next Arizona general rate case

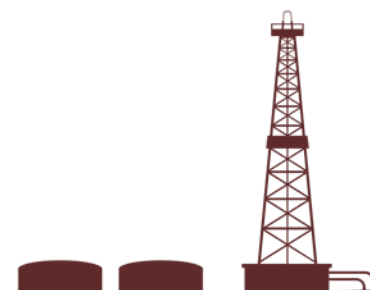


Customer Growth Breakdown



Natural Gas Operations
(In thousands)

	Twelve Months Ended September 30,		
	2013	2014	2015
Beginning period	1,858	1,883	1,912
New meter sets	21	20	22
Meter turn-on/turn-offs	4	9	4
Ending period	<u>1,883</u>	<u>1,912</u>	<u>1,938</u>



Economic Overview

Service Area

Natural Gas Operations



Unemployment Rate

Employment Growth

September 2015

September 2014

September 2015

September 2014

Southern California

6.1%

9.8%

2.8%

2.4%

Southern Nevada

6.8%

9.5%

2.3%

2.7%

Northern Nevada

6.4%

6.9%

-1.1%

-0.4%

Southern Arizona

5.7%

7.2%

1.4%

1.7%

Central Arizona

5.5%

7.1%

2.5%

2.3%



2015 Capital Expenditures

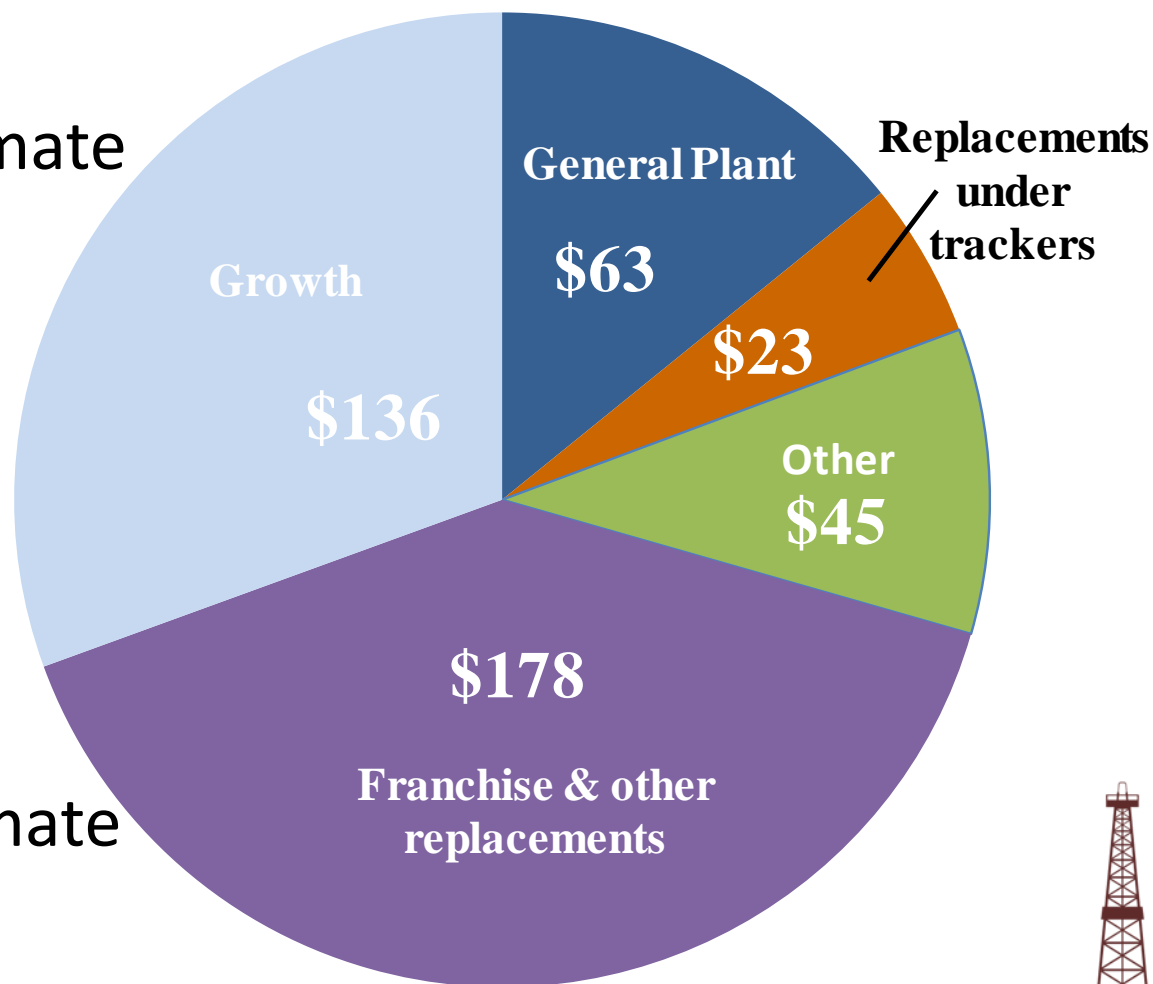
Natural Gas Operations

(In millions)



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- 2015 total estimate
 - \$445 million



- 2015-2017 estimate
 - \$1.3 billion



Net Utility Plant – Growth

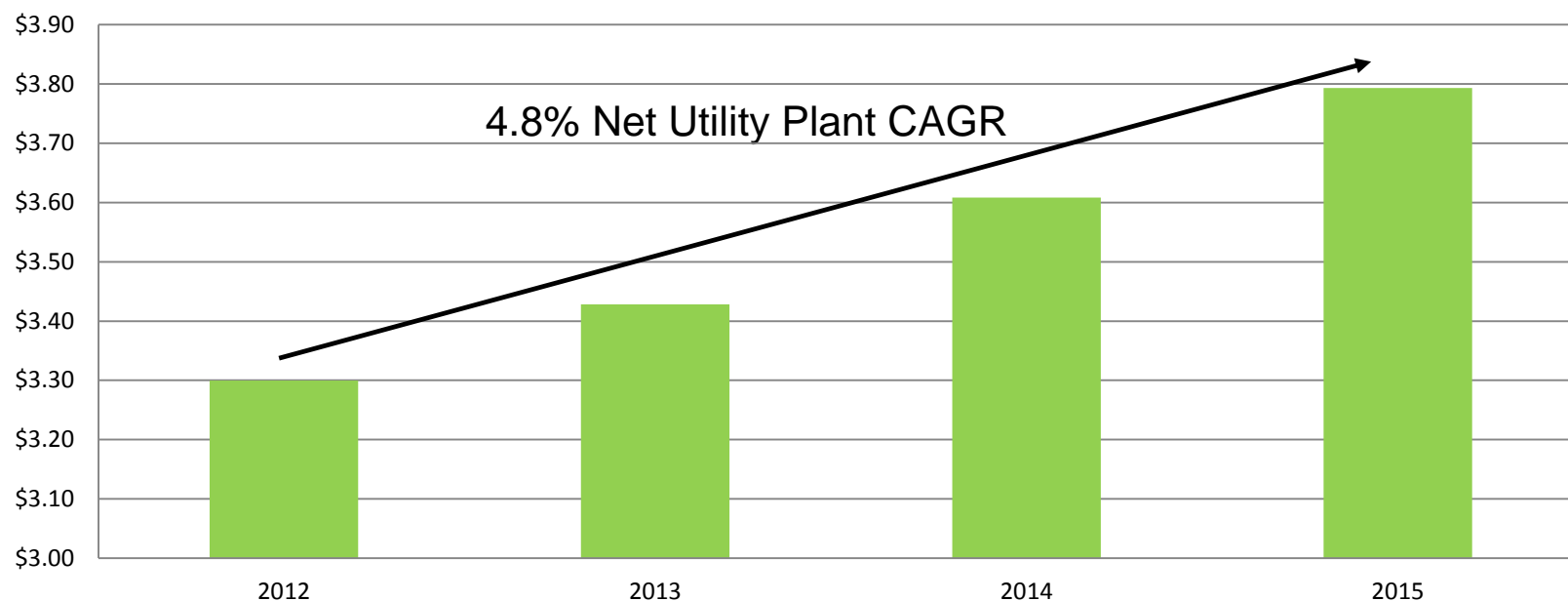
Natural Gas Operations

(In billions)



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For Periods Ended September 30,

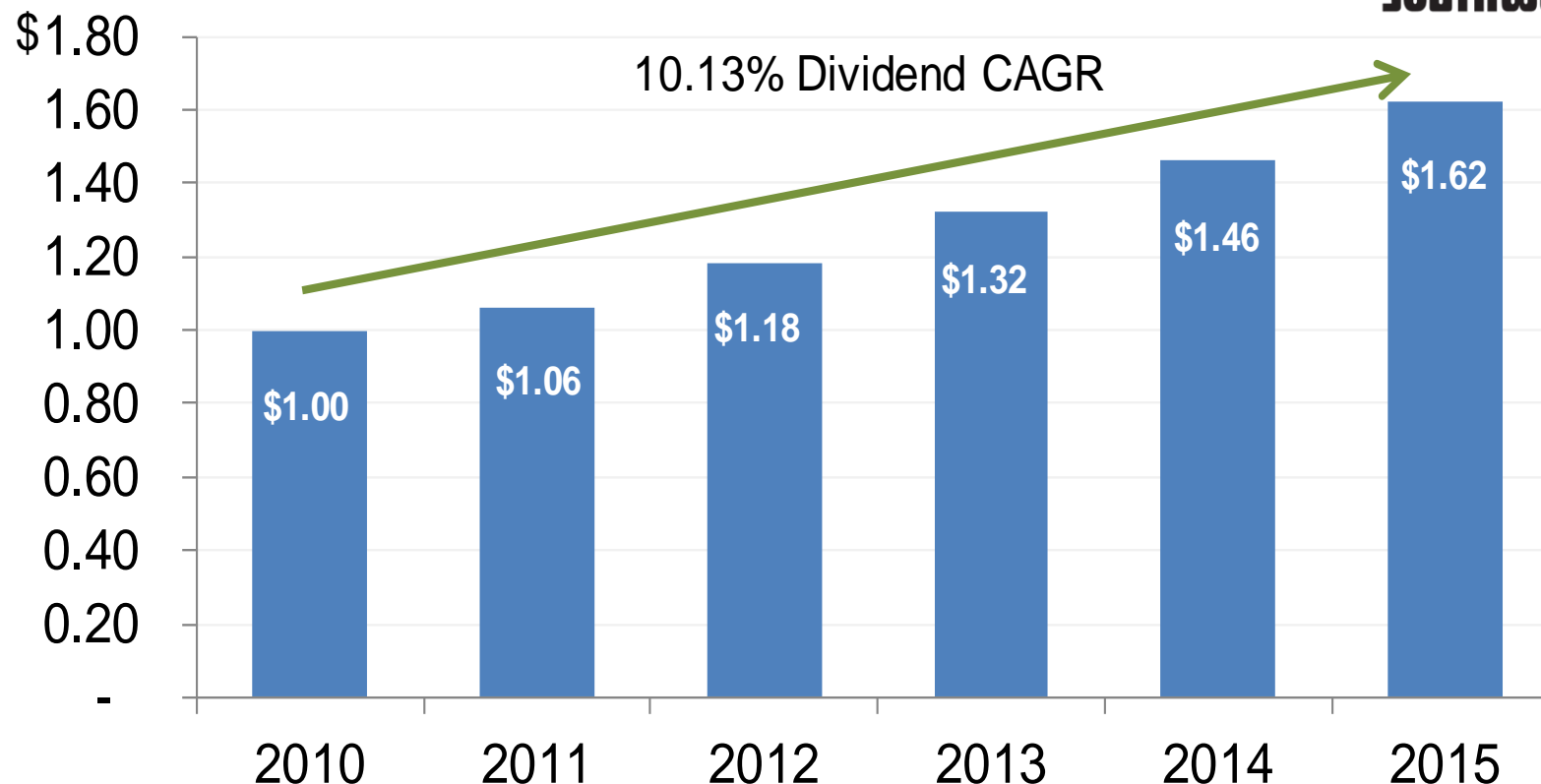


CAGR = compound annual growth rate





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CAGR = compound annual growth rate

February 2015, Board increased annual dividend \$0.16



2015 Outlook Update

Natural Gas Operations

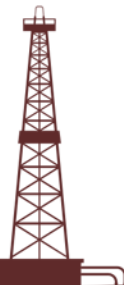


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- Operating margin is estimated to increase nearly 2%
 - Margin from net customer growth should be similar to 2014
 - Incremental margin from rate case decisions and regulatory initiatives should approximate the customer growth amount

- Operating costs increase assumption of 3% compared to 2014
 - Operations and maintenance expense will be negatively impacted by higher pension costs and other employee related expenses
 - Depreciation and general taxes combined should increase consistent with the growth in gas plant in service

- As a result, operating income for 2015 is forecast to fall about 1% to 2% from the \$241.6 million recognized during 2014



2015 Outlook Update (continued)

Natural Gas Operations



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- COLI cash surrender value changes continue to be subject to volatility
 - Decrease of \$2.6 million through September 30, 2015
 - During October 2015, equity markets have rebounded
 - Management cannot predict full-year COLI results
 - Longer-term normal changes in COLI cash surrender values are expected to range from \$3 million to \$5 million of income on an annual basis
- Net interest deductions for 2015 are expected to be approximately \$4 million lower than the \$68 million recorded in 2014
- Capital expenditures of \$445 million reflecting pipe replacement activity, customer growth, and expansion projects



2015 Outlook Update

Construction Services



- Integration efforts are now largely complete
- Revenues expected to approximate \$950 million, which is at the low end of our range of \$950 million to \$1 billion, due in part to the strong U.S. dollar relative to the Canadian dollar
- Operating income to approximate 6% of revenues, excluding revenue of \$18 million and a loss reserve of \$7.7 million associated with an industrial construction project in Canada
- Net interest deductions are estimated to be approximately \$8 million
- Collective expectations are before consideration of noncontrolling interests
- Based on the above forecast, contribution to net income, assuming no recovery on the loss contract before year-end, is estimated to range between \$22 million and \$25 million



Preliminary 2016 Outlook



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Natural Gas Operations

- The natural gas segment is anticipated to grow margin through customer growth, infrastructure tracker mechanisms, expansion projects and California attrition
- Expectations are that operating expenses (excluding any impacts positively or negatively from pension expense) and interest expense will likely offset the anticipated improvement in margin
- Arizona general rate case moratorium ends April 2016

Construction Services Segment

- Centuri has a platform that can sustain and grow its business with a strong base of utility clients, with multi-year pipe replacement programs
 - As a result, revenues are anticipated to be 7% to 10% greater than expected 2015 revenues
- Centuri operating income is expected to approximate 5.5% to 6.0% of revenues





APPENDIX



Two Business Segments

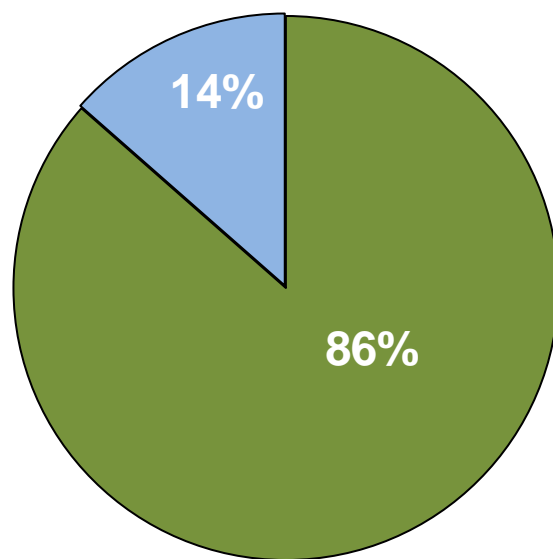


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Southwest Gas consists of two business segments

- Natural gas operations
- Construction services (Centuri)

**TMTD 9/30/15 Net Income
\$131MM**



■ **Natural gas operations**

\$113MM net income

■ **Construction services**

\$18MM net income



Centuri Construction Group

Construction Services



➤ NPL Construction Company

- Full-service underground piping contractor
- Operates in 20 major markets in the U.S.



➤ Link-Line Contractors

- Largest natural gas distribution contractor in Canada with approximately 700 employees
- Primarily operates in Ontario province
- Founded in 1994



Centuri Construction Group

Construction Services



- **W.S. Nicholls Construction**
 - Provides fabrication and multi-trade operations for industrial projects
 - Operations in Ontario province and western Canada
 - Founded in 1996

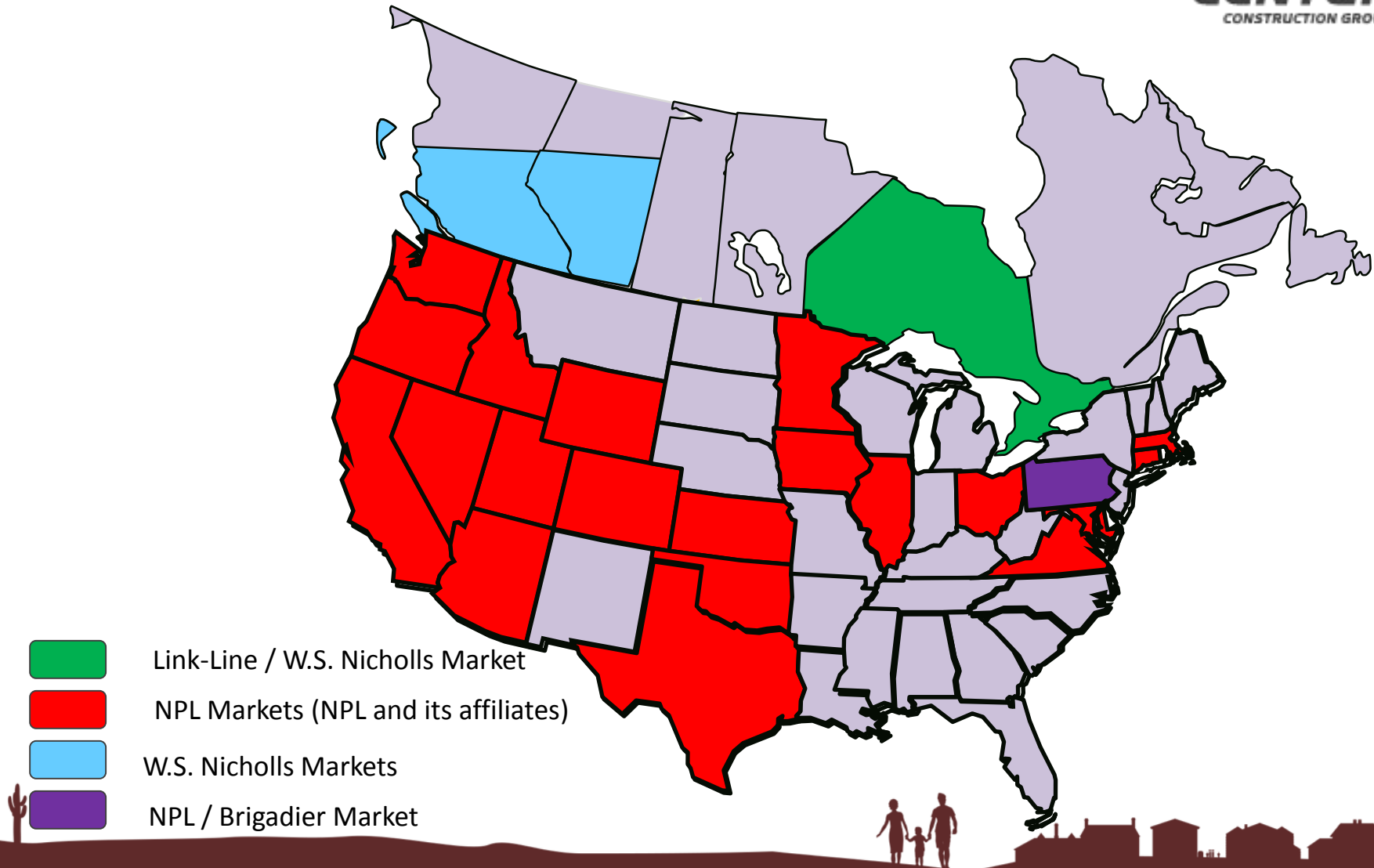


- **Brigadier Pipelines**
 - Performs midstream construction in the United States, primarily in Pennsylvania
 - Founded in 2012



Centuri Construction Group

Construction Services



Centuri Construction Group

Construction Services



Southwest Gas is a Regional Leader in Natural Gas Distribution



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- Headquartered in Las Vegas
- Largest distributor of natural gas in Arizona and Nevada
- Distributes and transports natural gas in parts of California
- **1,938,000** customers in service territory at 9/30/2015
- Over **99%** of customers are residential and commercial



Stable Customer Base

Natural Gas Operations

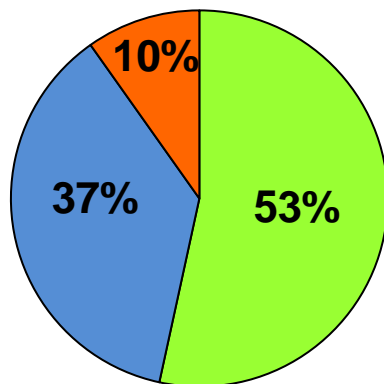


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TMTD September 30, 2015 Customer & Operating Margin Distribution

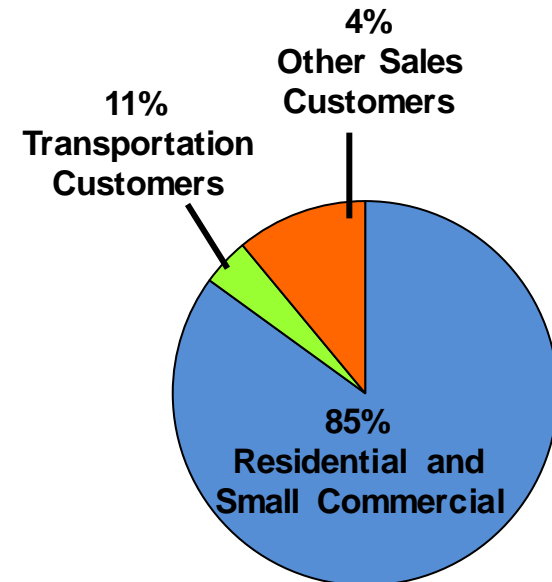
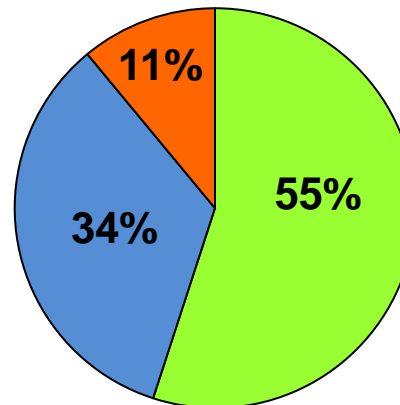
By State

Customers



■ Arizona
■ Nevada
■ California

Margin



➤ Consistent trends year over year

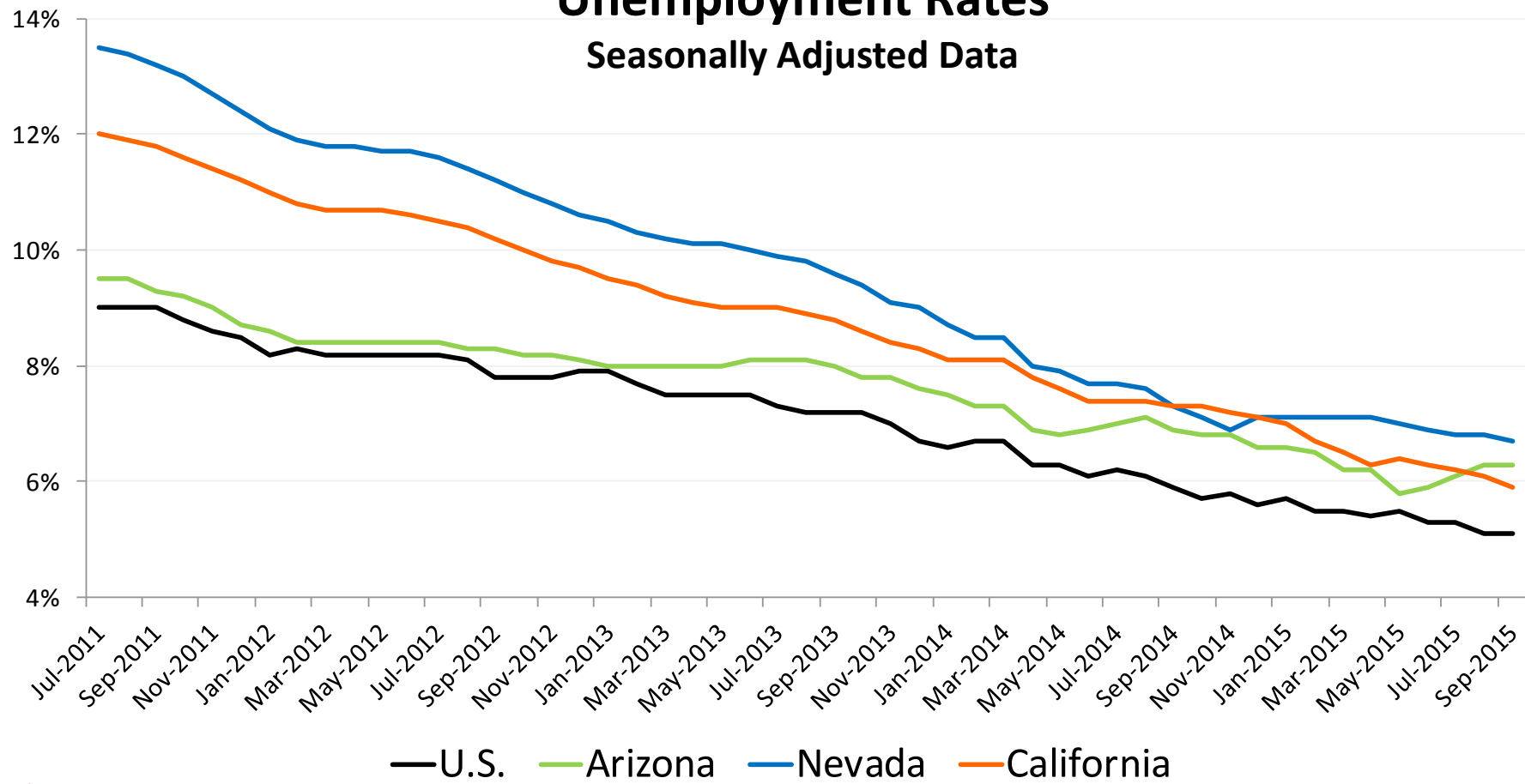


Economic Overview – Service Area

Natural Gas Operations



Unemployment Rates
Seasonally Adjusted Data



Customers by State

Natural Gas Operations

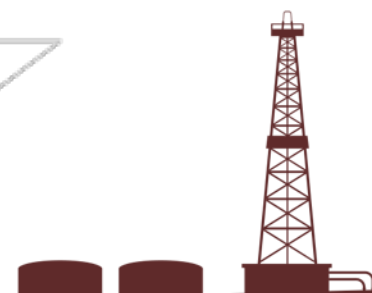
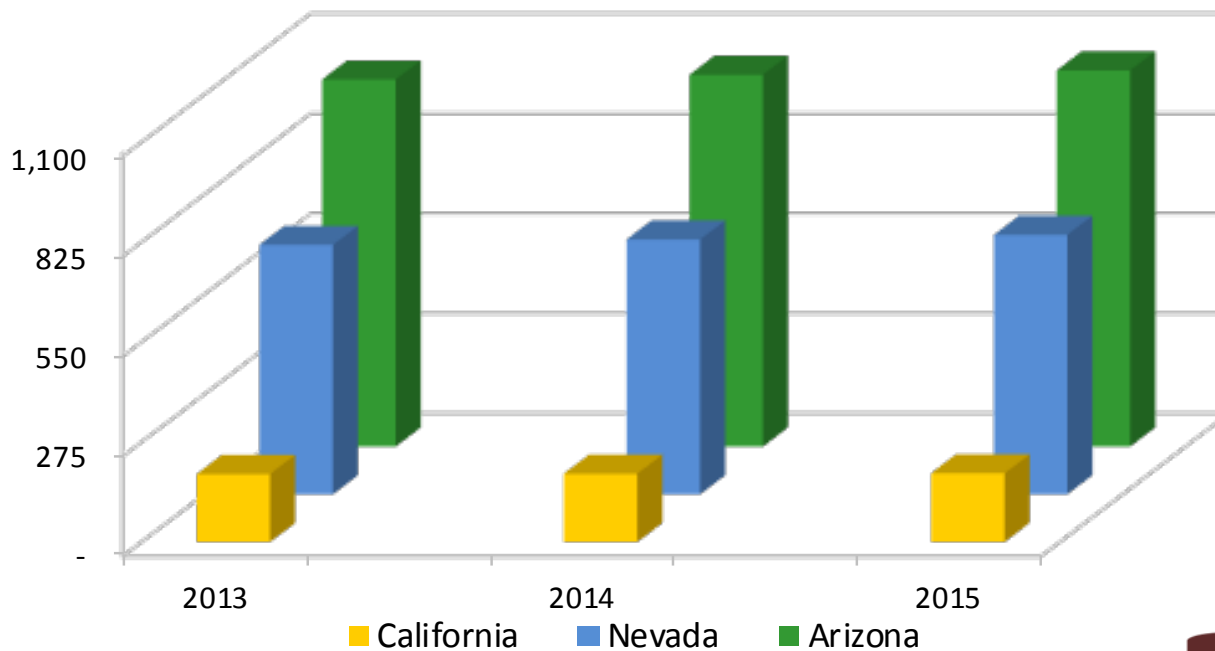
(In thousands)



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As of September 30,

	2013	2014	2015
Arizona	1,010	1,023	1,035
Nevada	688	701	713
California	185	188	190
Total	1,883	1,912	1,938



Purchased Gas Adjustment (PGA) Balances



Natural Gas Operations (In millions)

	<u>September 30, 2014</u>	<u>December 31, 2014</u>	<u>September 30, 2015</u>
Arizona	\$ 44.3	\$ 48.4	\$ (6.0)
Northern Nevada	6.7	10.2	(4.3)
Southern Nevada	21.7	20.4	(34.4)
California	5.6	8.6	0.8
Total Receivable/(Payable)	<u>\$ 78.3</u>	<u>\$ 87.6</u>	<u>\$ (43.9)</u>



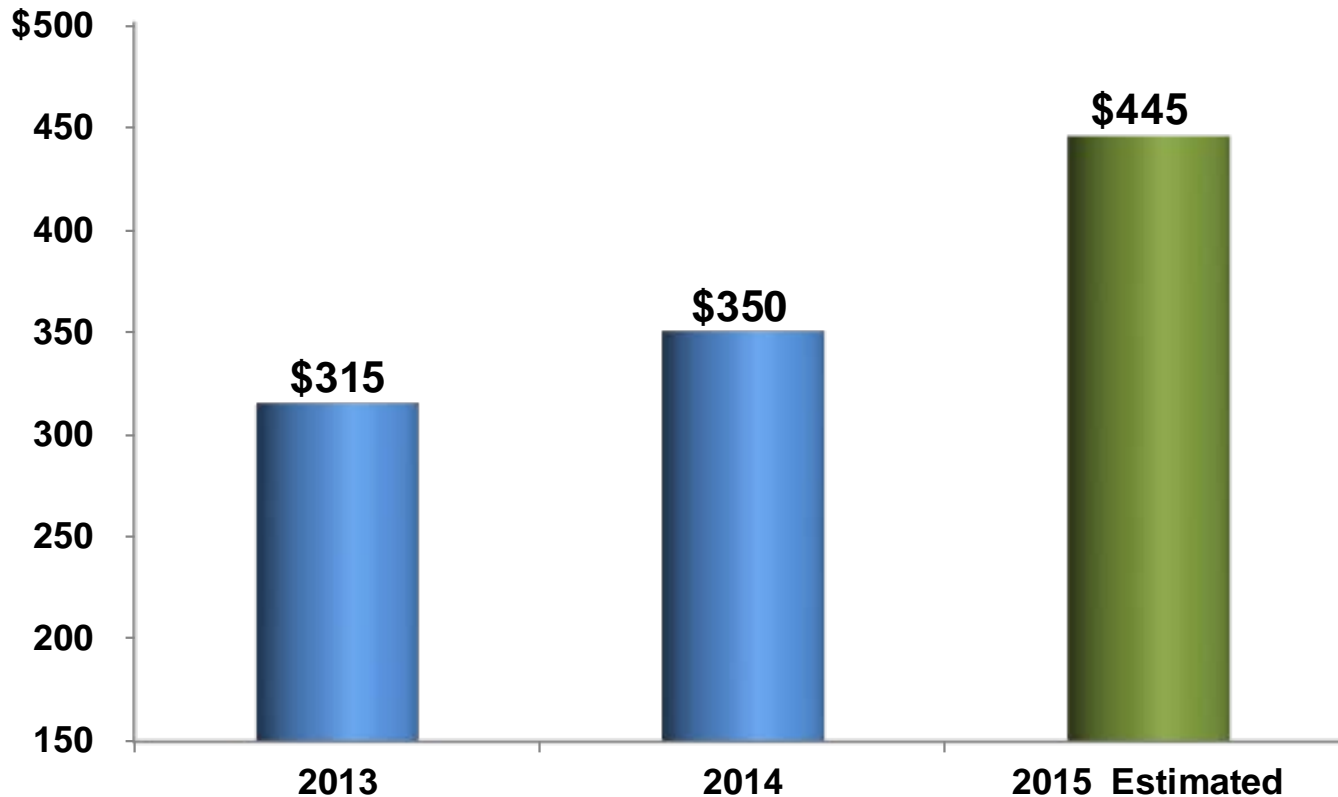
Capital Expenditures

Natural Gas Operations

(In millions)



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2015 - 2017 Estimate: \$1.3 billion



Authorized Rate Base and Rates of Return



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Natural Gas Operations

Rate Jurisdiction	Authorized Rate Base (In thousands)	Authorized Rate of Return	Authorized Return on Common Equity
Arizona	\$ 1,070,117	8.95 %	9.50 %
Southern Nevada	825,190	6.47	10.00
Northern Nevada	115,933	7.88	9.30
Southern California	159,277	6.83	10.10
Northern California	67,620	8.18	10.10
South Lake Tahoe	25,389	8.18	10.10
Paiute Pipeline Company (1)	87,158	8.46	11.00

(1) Estimated amounts based on rate case settlement.

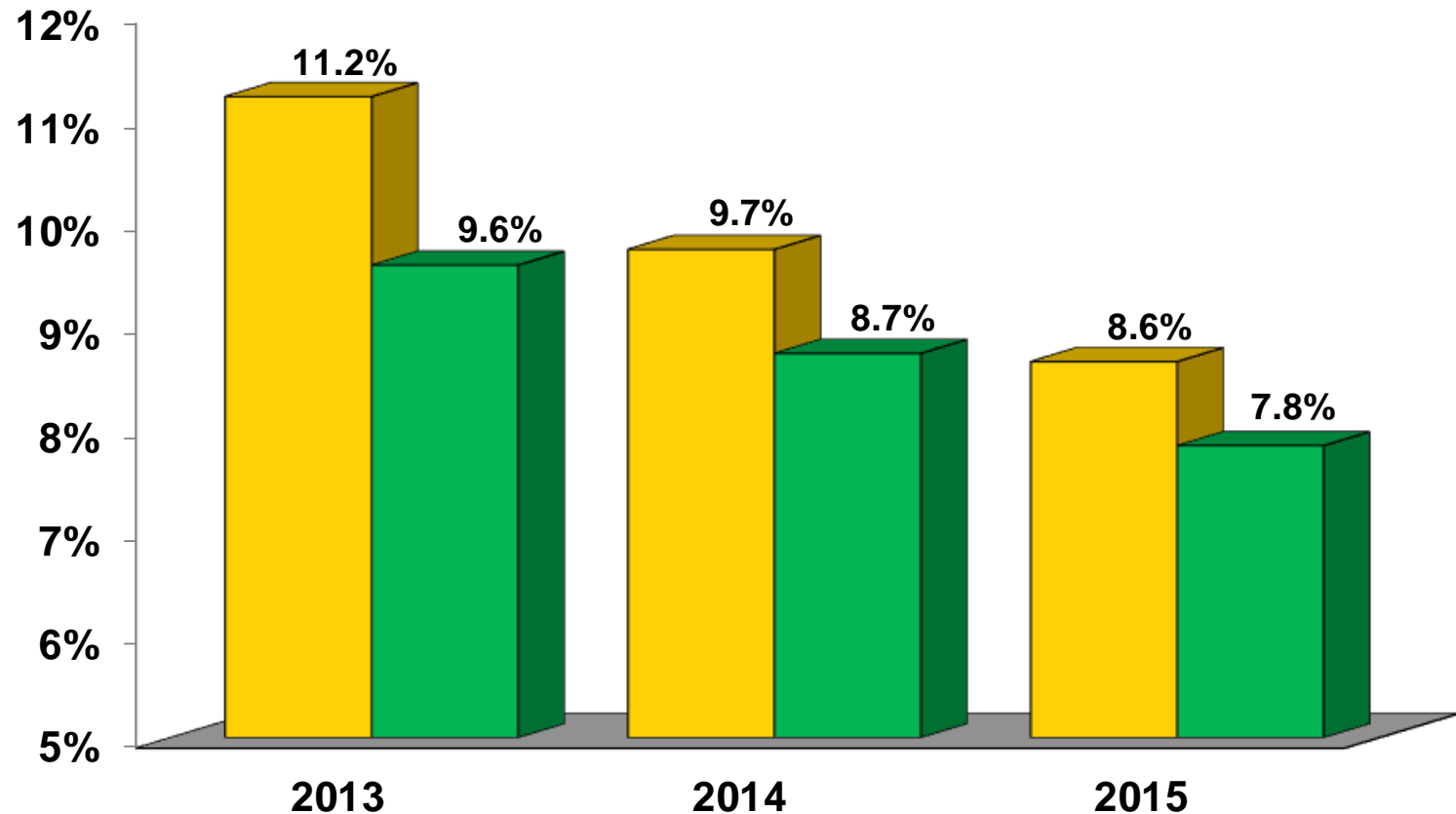


Return on Common Equity

Twelve months ended September 30,



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- Return on Common Equity - Total Company
- Return on Common Equity - Gas Operations



Consolidated Capital Structure

(In millions)



Capitalization at September 30,	2011	2012	2013	2014	2015
Common Equity ¹	\$ 1,187	\$ 1,265	\$ 1,361	\$ 1,452	\$ 1,562
Long-Term Debt ²	1,158	1,261	1,291	1,449	1,560
Total Permanent Capital	<u>\$ 2,345</u>	<u>\$ 2,526</u>	<u>\$ 2,652</u>	<u>\$ 2,901</u>	<u>\$ 3,122</u>
Capitalization ratios					
Common Equity ¹	50.6%	50.1%	51.3%	50.1%	50.0%
Long-Term Debt ²	49.4%	49.9%	48.7%	49.9%	50.0%
Total Permanent Capital	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

¹ Includes redeemable noncontrolling interests

² Includes current maturities of long-term debt



Investment Grade Credit Ratings



Moody's

Rating

- Senior Unsecured Debt: A3 (January 2014)
- Outlook: Stable

Standard & Poor's

- Senior Unsecured Debt: BBB+ (October 2014)
- Outlook: Stable

Fitch

- Senior Unsecured Debt: A (May 2013)
- Outlook: Stable



Stock Performance



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NYSE: SWX
Common Stock Closing Price
September 30, 2005 – September 30, 2015



Comparative Total Returns



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Total Returns for Periods Ended September 30, 2015

	1-Year	3-Year	5-Year	10-Year
Southwest Gas	23.38%	12.66%	14.72%	11.04%
S&P 600 Small Gas Index	18.25%	9.64%	10.22%	8.95%
Dow Jones Utilities	8.39%	10.74%	12.02%	6.97%
S&P 500 Index	(0.62%)	12.36%	13.31%	6.79%

Total Return = Price appreciation plus gross dividends reinvested

